

City of Titusville, Pennsylvania

Audit Report

December 31, 2005

**City of Titusville
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December 31, 2005**

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SECTION 1

CITY OF TITUSVILLE, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2005

Our discussion and analysis of the City of Titusville's financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2005, within the limitations of the City's cash basis and budget laws of the Commonwealth of Pennsylvania for fund financial statements. Please read it in conjunction with the City's financial statements and the accompanying notes to those financial statements that begin in Section 3.

FINANCIAL HIGHLIGHTS

- ❖ The governmental activities assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$2,995,690 (*net assets*). Of this amount, \$474,176 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- ❖ At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,118,165. This amount is available for spending at the City's discretion (*unreserved fund balance*).
- ❖ The City's General Fund reported a positive fund balance of \$272,592 as of December 31, 2005, compared to a positive fund balance of \$306,908 as of December 31, 2004, as restated.

THE FINANCIAL STATEMENTS

This annual report is represented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34. The government-wide financial statements have been prepared using the accrual basis of accounting; whereas, the fund financial statements have been prepared using the cash basis of accounting and budget laws of the Commonwealth of Pennsylvania, which is another comprehensive basis of accounting. This discussion and analysis is intended to serve as an introduction to the City's basic financial statements.

The *government-wide financial statements* present the financial picture of the City from the economic resources measurement focus. They present governmental activities and business-type activities separately. These statements include all assets of the City (including infrastructure) as well as all liabilities (including long-term debt). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables and receivables.

The *fund financial statements* include statements for each of the three categories-governmental, proprietary and fiduciary. The governmental and proprietary activities are prepared using the cash basis of accounting and budget laws of the Commonwealth of Pennsylvania. The fiduciary activities are agency funds, which only report a balance sheet and do not have a measurement focus. Reconciliation of the Fund financial statements to the government-wide financial statements are provided to explain the differences created by the integrated approach prescribed by GASB No. 34.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities in Section 3 provide information about the activities of the City government-wide and business-type activities and present a longer-term view of the City's finances. These two statements report the City's net assets and changes in them. Net assets are the differences between assets and liabilities, which is one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors to consider are changes in the City's property tax base and the condition of the City's roads.

In the Statement of Net Assets and the Statement of Activities, we separate the City activities as follows:

Governmental activities: Most of the City's basic services are reported in this category, including General Government, Public Safety, Public Works, Human Services, Culture and Recreation. Property and earned income taxes, user fees, interest income, franchise fees, and state and federal grants finance these activities.

Business-type activities: The City charges a fee to customers to cover all or most of the cost of certain services it provides. The City's refuse, water and sewer activities are reported in this category. The Internal Service Fund is also reported in this category.

Fund Financial Statements

The fund financial statements provide detailed information about all the funds-not the City as a whole. Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the City. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant ("major") funds. The City's fund financial statements, starting in Section 4, are divided into three categories: 1) governmental funds, 2) proprietary funds, and 3) fiduciary funds.

Governmental Funds

Governmental fund financial statements consist of a statement of assets, liabilities and fund balances, and a statement of revenues, expenditures, and changes in fund balances. These statements are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted to cash. For example, amounts reported on the balance sheet include items such as cash, but do not include capital assets such as land and buildings. Fund liabilities include amounts that are to be paid within a short period after the end of the fiscal year. The difference between fund's total assets and total liabilities is labeled as the fund balance, and generally indicates the amount that can be used to finance the next year's activities. The statement of revenues, expenditures and changes in fund balances for governmental funds reports only those

revenues and expenditures that were collected or paid during the current period and very shortly after the end of the year.

For the most part, the balances and activities accounted for in the governmental funds are also reported in the governmental activities columns of the government-wide financial statements. However, because of the difference in accounting basis used to prepare fund financial statements and government-wide financial statements, there are often significant differences between the totals presented. For this reason, there is an analysis after the balance sheet that reconciles the total fund balances to the amount of net assets presented in the governmental activities column on the statement of net assets. Also, there is an analysis after the statement of revenues, expenditures, and changes in fund balance that reconciles the total change in fund balances for all governmental funds to the change in net assets as reported in the governmental activities column in the statement of activities.

The City's governmental fund financial statements are presented in Section 4.

Proprietary Funds

Proprietary fund financial statements consist of a statement of net assets, statement of revenues, expenses, and changes in fund net assets and statement of cash flows. These statements are prepared on an accounting basis that is similar to the basis used to prepare the government-wide financial statements. Proprietary funds include Enterprise Funds and Internal Service Funds.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer and refuse. Internal Service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses separate internal service funds to account for its fringe benefits program. Because all of these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the major enterprise funds, which are water, sewer and refuse. All internal service funds are considered to be non-major funds and are presented in the proprietary fund financial statements.

The proprietary fund financial statements can be found in Section 4 of this report.

Fiduciary Funds

Fiduciary fund financial statements consist of a statement of fiduciary net assets and a statement of changes in fiduciary net assets. Assets held by the City for other parties, either as a trust or as an agent, and that cannot be used to finance the City's own operating programs are reported in the fiduciary funds. The City is the trustee, or fiduciary, for three pension plans.

The fiduciary fund financial statements can be found in Section 4 of the report.

Notes to the Financial Statements

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements. (See Section 5)

Required Supplementary Information: This Management's Discussion and Analysis and the Budgetary Comparison Schedule in Section 6 represent financial information required by GASB to be presented. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as "the basic financial statements").

Other Supplementary Information: This part of the annual report starting in Section 7 includes the Schedule of Expenditures of Federal Awards. This other supplemental financial information is provided to address certain specific needs of various users of the City's annual report.

Basis of Accounting

The City has elected to present its government-wide financial statements on the accrual basis of accounting and its fund financial statements on the cash basis of accounting. The cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to *when* financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the City's cash basis of accounting, revenues, expenses, and related assets and liabilities are recorded when they result from cash transactions. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these fund financial statements. They are, however, recorded in the government-wide financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Government-wide Financial Analysis

Certain prior year balances were revised for management's use for GASB 34 changes. These items are used in comparisons later in this discussion. In future years, this section will contain a comparative analysis of the changes in net assets and a comparison of revenues and expenses with explanations for significant differences.

The following schedule is a summary of the Statement of Net Assets:

City of Titusville, Pennsylvania Net Assets at December 31, 2005							
Current and other assets	\$ 1,026,991	\$ 1,216,989	\$ 686,124	\$ 486,686	\$ 1,713,115	\$ 1,703,675	-0.6%
Capital assets, (net of depreciation)	\$ 2,846,722	\$ 2,645,514	\$ 6,279,851	\$ 7,105,420	\$ 9,126,573	\$ 9,750,934	6.8%
Total Assets	\$ 3,873,713	\$ 3,862,503	\$ 6,965,975	\$ 7,592,106	\$ 10,839,688	\$ 11,454,609	5.7%
Liabilities:							
Current and other liabilities	\$ 69,312	\$ 311,697	\$ 762,573	\$ 1,186,488	\$ 831,885	\$ 1,498,185	80.1%
Long-term debt outstanding	\$ 442,382	\$ 555,116	\$ 8,428,371	\$ 8,283,143	\$ 8,870,753	\$ 8,838,259	-0.4%
Total Liabilities	\$ 511,694	\$ 866,813	\$ 9,190,944	\$ 9,469,631	\$ 9,702,638	\$ 10,336,444	6.5%
Net Assets:							
Investment in capital assets (net of debt)	\$ 2,846,722	\$ 2,521,514	\$ (2,353,027)	\$ (1,477,944)	\$ 493,695	\$ 1,043,570	111.4%
Unrestricted	\$ 515,297	\$ 474,176	\$ 128,058	\$ (399,581)	\$ 643,355	\$ 74,595	-88.4%
Total Net Assets	\$ 3,362,019	\$ 2,995,690	\$ (2,224,969)	\$ (1,877,525)	\$ 1,137,050	\$ 1,118,165	-1.7%

The year ended December 31, 2004 amounts have been adjusted to reflect the cumulative effect of the restatement of net assets as explained under the table of Changes in Net Assets for the Year Ended December 31, 2005.

As noted earlier, net assets may serve over time as a useful indicator of financial position. In the case of the City, assets exceeded liabilities by \$1,118,165, an increase of 12% from 2004. Net assets of the City's governmental activities increased 1% to almost \$3 million. However, \$2,521,514 of those net assets is invested in capital assets. Consequently, unrestricted net assets showed only \$474,176 at the end of this year.

The City's net assets reflect investment in capital assets (e.g. land, buildings, improvements, infrastructure and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these assets to provide services to citizens; consequently, these assets are *not* available for future spending. Investment in capital assets, in the business-type activities, reflects the recent debt incurred due to the construction costs for two phases of the mandated sewer projects.

Typically, the unrestricted net assets (\$74,595) may be used to meet the government's ongoing obligations to citizens and creditors. And, in the case of the City, the total net assets (\$1,118,165) are more than the unrestricted net assets.

The following is a summary of the information presented in the Statement of Activities:

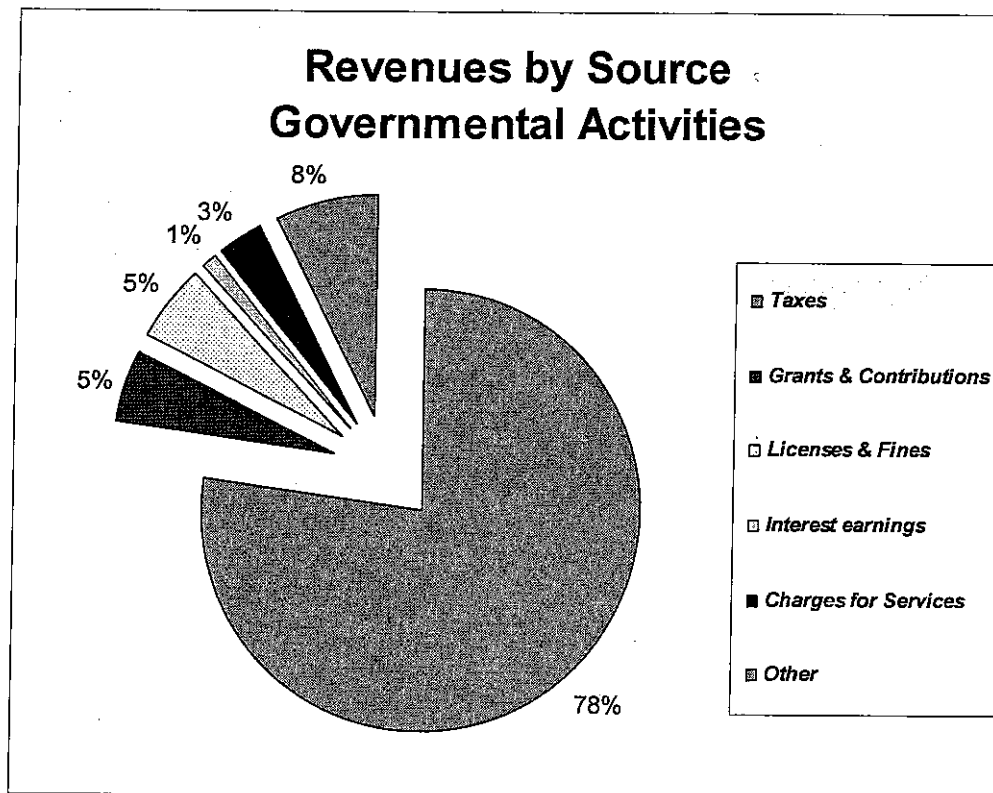
City of Titusville, Pennsylvania
Changes in Net Assets for the Year Ended December 31, 2005

Revenues	Governmental Activities		Business-type Activities		Total		Total % Change
	2004	2005	2004	2005	2004	2005	
Program Revenues							
Charges for Services	\$66,392	\$94,890	\$3,574,443	\$3,814,853	\$3,640,835	\$3,909,743	7.4%
Operating Grant and contributions	\$206,225	\$125,787	\$203,795	\$210,728	\$410,020	\$336,515	-17.9%
Capital Grants and contributions	\$57,861	\$25,524	\$792,412	\$96,334	\$850,273	\$121,858	-85.7%
General Revenues							
Taxes	\$2,135,839	\$2,144,148	\$0	\$0	\$2,135,839	\$2,144,148	.4%
Licenses and permits	\$73,279	\$69,576	\$0	\$0	\$73,279	\$69,576	-5.1%
Fines and forfeits	\$86,615	\$82,529	\$0	\$0	\$86,615	\$82,529	-4.7%
Interest earnings	\$8,379	\$30,987	\$7,270	\$14,094	\$15,649	\$45,081	188.1%
Miscellaneous	\$114,194	\$83,407	\$39,032	\$27,527	\$153,226	\$110,934	-27.6%
Transfers	\$9,272	\$121,838	-\$9,272	-\$121,838	\$0	\$0	
TOTAL REVENUES	\$2,758,056	\$2,928,675	\$4,607,680	\$4,041,698	\$7,365,736	\$6,820,384	-7.4%
Expenses							
General Government	\$196,373	\$297,065			\$196,373	\$297,065	51.3%
Public Safety	\$1,454,025	\$1,505,266			\$1,454,025	\$1,505,266	3.5%
Public Works	\$580,763	\$755,866			\$580,763	\$755,866	30.2%
Human Services	\$2,048	\$2,020			\$2,048	\$2,020	-1.4%
Culture and Recreation	\$177,872	\$171,311			\$177,872	\$171,311	-3.7%
Depreciation	\$308,320	\$296,435			\$308,320	\$296,435	-3.9%
Miscellaneous	\$136,810	\$117,052			\$136,810	\$117,052	-14.4%
Internal Services							
Activities			\$1,210,338	\$1,285,080	\$1,210,338	\$1,285,080	6.2%
Water, Sewer, and Refuse Facilities			\$2,089,950	\$2,203,479	\$2,089,950	\$2,203,479	5.4%
Interest on Long-term Debt			\$199,636	\$205,695	\$199,636	\$205,695	3.0%
TOTAL EXPENSES	\$2,856,211	\$3,145,015	\$3,499,924	\$3,694,254	\$6,356,135	\$6,839,269	7.6%
Change in Net Assets	-\$98,155	-\$366,329	\$1,107,756	\$347,444	\$1,009,601	-\$18,885	-101.9%
Cumulative effect of restatement (see below)	\$397,934		-\$259,359		\$138,575		
Net Assets, Beginning of Year	\$3,062,240	\$3,362,019	-\$3,073,366	-2,224,969	-\$11,126	\$1,137,050	10319.8%
Net Assets, End of Year	\$3,362,019	\$2,995,690	-\$1,965,610	-\$1,877,525	\$998,475	\$1,118,165	12.0%

Net assets as of December 31, 2004 were restated to properly record the cost of capital assets and the related accumulated depreciation for the general fund and the enterprise funds. Additionally, non-

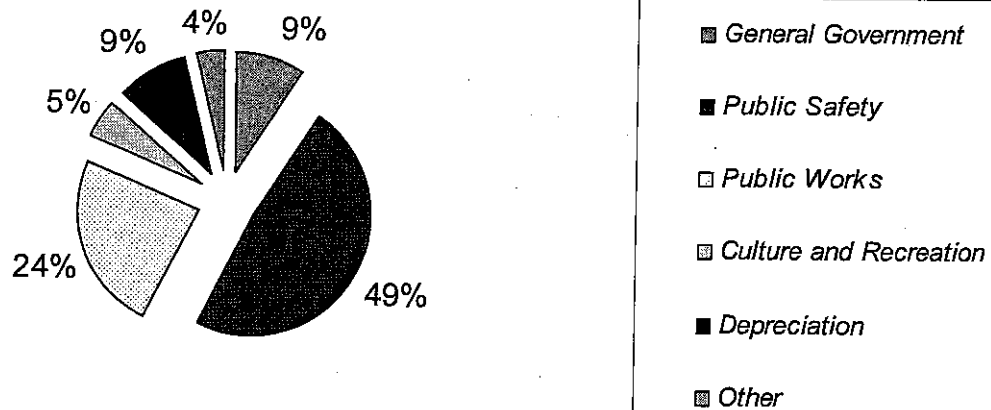
resident earned income tax monies were reclassified to the agency fund. The effect of the restatement has been shown above as a cumulative adjustment to net assets as it was impractical to determine the amount that solely related to the year ended December 31, 2004.

The City's governmental activities rely heavily upon Tax Revenue (78%) to fund its operations. The cost of governmental activities totaled \$3,145,015 for the year ended December 31, 2005. The following graph shows the composition of revenues for the City's governmental activities:



The following chart presents governmental expenses by function:

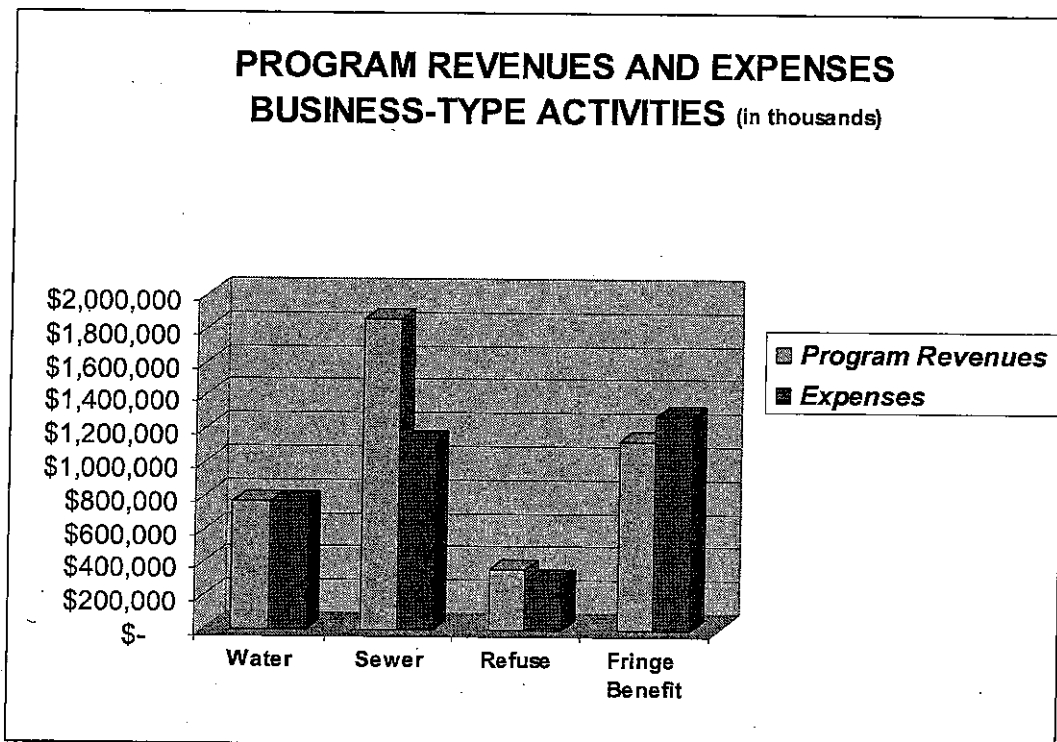
Uses of Funds in Governmental Activities



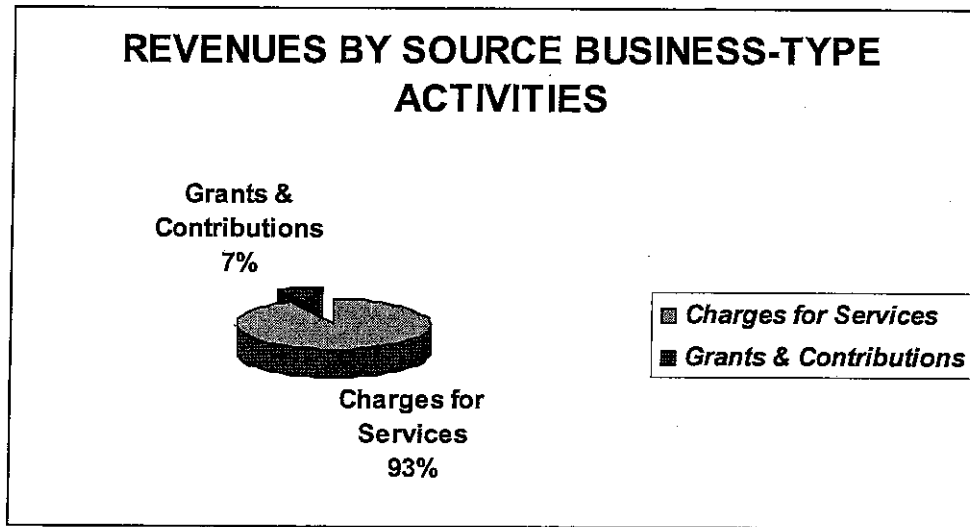
Business-type Activities

Business-type activities increased the City's net assets by \$347,444, accounting for the total growth in the City's net assets.

The following chart compares expenses with program revenues for the City's business-type activities:



The following graph shows the composition of revenues for the City's business-type activities:



Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The fund financial statements for the governmental funds are provided in Section 4. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

General Fund Budgetary Highlights

The General Fund is the chief operating fund of the City. At the end of the current fiscal, unreserved fund balance of the General Fund was \$272,592, while the total governmental fund balance was \$875,530. As a measure of the General Fund's liquidity, it may be useful to note that the total fund balance is unrestricted.

The fund balance of the City's General Fund decreased by \$34,316 during the current fiscal year. Key factors for this increase include:

- ❖ Annual revenue exceeded the 2005 annual budget by \$18,179. The main revenue stream continues to come from taxes.
- ❖ Expenditures exceeded budget by a small, \$3,199. Public Works expenditures came in over budget by \$30,012 while General Government, Public Safety, Human Services, and Culture and Recreation all came in under budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Fund

The City's investment in capital assets for its governmental and business type activities as of December 31, 2005, amounts to \$9,750,934 (net of accumulated depreciation). This investment in capital assets includes land, buildings and building improvements, equipment and systems, and construction in process.

Major capital asset activity during the current fiscal year included the following:

- ❖ Replacement of two Police Cruisers at a cost of \$47,220.
- ❖ Replacement of a section of the fire station roof at a cost of \$13,946.
- ❖ Purchase of two used Cargo Trucks for the Public Works Department at a cost \$1175 each. One truck will be used for General Government purposes, the other for the Water Department.
- ❖ The City paved the entire section of Main Street through a piggyback program with Penn DOT. The City borrowed \$124,000 from the Pennsylvania Infrastructure Bank and laid out an additional \$51,553 in capital funds.
- ❖ Work continued on the Dry Dam project with payment of \$6,180, mainly for a flood control survey, during FY 2005.
- ❖ The outstanding balance of \$20,000 was paid for the installation of an emergency generator installed at the water plant in FY 2004. Purchase price of the generator was \$60,000.
- ❖ Just over \$11,300 was spent for installation of signs for the Walking Tour Project.
- ❖ Five thousand dollars was earmarked and paid to Titusville Renaissance Inc. for funding of various local projects.

City of Titusville, Pennsylvania Capital Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2004	2005	2004	2005	2004	2005
Land	\$170,813	\$170,813	\$32,245	\$32,245	\$203,058	\$203,058
Buildings/Improvements	\$4,483,666	\$4,507,806	\$6,882,079	\$6,882,079	\$11,365,745	\$11,389,885
Equipment and Systems	\$2,549,172	\$2,620,259	\$3,370,224	\$3,363,899	\$5,919,396	\$5,984,158
Construction in Progress	\$0	\$0	\$2,895,851	\$3,977,872	\$2,895,851	\$3,977,872
Total	\$7,203,651	\$7,298,878	\$13,180,399	\$14,256,095	\$20,384,050	\$21,554,973
Less Accum. Depreciation	(\$4,982,039)	(\$4,653,364)	(\$6,641,189)	(\$7,150,675)	(\$11,623,228)	(\$11,804,039)
Total Capital Assets	\$2,221,612	\$2,645,514	\$6,539,210	\$7,105,420	\$8,760,822	\$9,750,934

Long-Term Debt

At the end of the current fiscal year, the City had total debt outstanding of \$9,191,840. 72% of the total indebtedness is attributed to notes payable while over 92% of the notes payable represent loans for the Act 537 sewer projects.

Additional information on the City's long-term debt can be found in the Notes to Financial Statements, in Section 5 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

For the upcoming fiscal year December 31, 2006, the City's budget is fairly consistent with this year.

Sewer rates were increased effective January 1, 2005. The rate increase was needed to pay for mandated sewer upgrades. There is no rate increase budgeted for the upcoming budget.

There has been no change in water rates. However, a water rate study will be undertaken in FY 2005 to determine if a rate increase is needed.

The refuse contract expired in June 2005. With award of a new three-year contract, refuse rates increased in July 2005 by \$1.00 a month.

The General Fund property tax millage has not changed for next year. The City has experienced relatively flat-tax revenue over the past six years.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City of Titusville's Finance Department, 107 N. Franklin Street, Titusville, Pennsylvania 16354 or telephone at 814-827-5300 Extension 310.

SECTION 2



O'Polka & Company, Inc.

Certified Public Accountants and Advisors

1446 Liberty Street • Franklin, PA 16323

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of Council
City of Titusville, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Titusville, Pennsylvania (a third-class city), as of and for the year ended December 31, 2005, which collectively comprise the City of Titusville, Pennsylvania's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

A primary government is a legal entity or body politic and includes all funds, departments, and offices that are not legally separate. Such legally separate entities are referred to as component units. In our opinion, because of the City of Titusville, Pennsylvania's policy to prepare its financial statements on the basis of accounting discussed in Note 3 and they do not include the financial data of the component unit, the financial statements referred to above do not purport to, and do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Titusville, Pennsylvania, as of December 31, 2005, or the results of its operations.

Management has elected to present the fund financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the Commonwealth of Pennsylvania, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. It was not practicable to determine the effect of the departure on the fund financial statements.

In our opinion, except for the effects of presenting fund financial statements on a prescribed basis of accounting as described in the preceding paragraph and the City's policy of not including the financial data of the component unit, the financial statements referred to above present fairly, in all material

respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Titusville, Pennsylvania, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

However, in our opinion, the fund financial statements referred to above present fairly, in all material respects, the respective assets, liabilities and fund balance and revenues, expenditures and changes in fund balance of the City of Titusville, Pennsylvania as of December 31, 2005, and the respective changes in cash basis financial position thereof for the year then ended in conformity with the cash basis of accounting.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2006, on our consideration of the City of Titusville, Pennsylvania's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing and not to provide an opinion on the internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management discussion and analysis, budgetary comparison information, and required Pension Plan supplemental schedule in Section 6 are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Titusville, Pennsylvania's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of City of Titusville, Pennsylvania. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

O'Polka & Company, Inc.

September 28, 2006, except as to note 20, which is as of December 20, 2006
Franklin, Pennsylvania



O'Polka & Company, Inc.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and Members of Council
City of Titusville, Pennsylvania

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Titusville, Pennsylvania as of and for the year ended December 31, 2005 which collectively comprise the City of Titusville, Pennsylvania's basic financial statements, and have issued our report thereon dated September 28, 2006, which was qualified for the lack of financial data for the component unit and presenting fund financial statements on a prescribed basis of accounting as discussed in Note 3. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Titusville, Pennsylvania's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the primary government financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the City of Titusville, Pennsylvania's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Mayor, members of council, management, federal awarding agencies, the Pennsylvania Infrastructure Investment Authority, the Pennsylvania Department of Environmental Protection and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

O'Polka & Company Inc.

September 28, 2006
Franklin, Pennsylvania



O'Polka & Company, Inc.

Certified Public Accountants and Advisors

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and Members of Council
City of Titusville, Pennsylvania

Compliance

We have audited the compliance of the City of Titusville, Pennsylvania with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2005. The City of Titusville, Pennsylvania's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Titusville, Pennsylvania's management. Our responsibility is to express an opinion on the City of Titusville, Pennsylvania's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Titusville, Pennsylvania's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Titusville, Pennsylvania's compliance with those requirements.

In our opinion, the City of Titusville, Pennsylvania complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

Internal Control Over Compliance

The management of the City of Titusville, Pennsylvania is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Titusville, Pennsylvania's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the Mayor, members of council, management, federal awarding agencies, the Pennsylvania Infrastructure Investment Authority, the Pennsylvania Department of Environmental Protection and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

O'Polka & Company, Inc.

September 28, 2006
Franklin, Pennsylvania

SECTION 3

City of Titusville
Statement of Net Assets
December 31, 2005

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 805,561	\$ 400,642	\$ 1,206,203
Accounts receivable			
Taxes, net of allowance for doubtful accounts	200,984		200,984
City services		85,810	85,810
Other	6,989	217	7,206
Due from other funds	203,455	17	203,472
Total current assets	<u>1,216,989</u>	<u>486,686</u>	<u>1,703,675</u>
Capital assets			
Land	170,813	32,245	203,058
Buildings and building improvements	4,507,806	6,882,079	11,389,885
Equipment and systems	2,620,259	3,363,899	5,984,158
Construction in progress		3,977,872	3,977,872
	<u>7,298,878</u>	<u>14,256,095</u>	<u>21,554,973</u>
Accumulated depreciation	<u>(4,653,364)</u>	<u>(7,150,675)</u>	<u>(11,804,039)</u>
Total capital assets, net	<u>2,645,514</u>	<u>7,105,420</u>	<u>9,750,934</u>
Total assets	<u>\$ 3,862,503</u>	<u>\$ 7,592,106</u>	<u>\$ 11,454,609</u>
Liabilities			
Vouchers payable and other current liabilities	\$ 139,901	\$ 264,466	\$ 404,367
Due to other funds	124,017	79,455	203,472
Accrued compensated absences	24,423	13,077	37,500
Notes payable	23,356	349,490	372,846
General obligation bonds payable		480,000	480,000
Total current liabilities	<u>311,697</u>	<u>1,186,488</u>	<u>1,498,185</u>
Noncurrent liabilities			
Due in more than one year			
Accrued compensated absences	454,472	44,793	499,265
Notes payable	100,644	6,156,509	6,257,153
General obligation bonds payable		1,597,365	1,597,365
Accrued long-term bond interest		484,476	484,476
Total non-current liabilities	<u>555,116</u>	<u>8,283,143</u>	<u>8,838,259</u>
Total liabilities	<u>866,813</u>	<u>9,469,631</u>	<u>10,336,444</u>
Net assets			
Invested in capital assets, net of related debt	2,521,514	(1,477,944)	1,043,570
Unrestricted	474,176	(399,581)	74,595
Total net assets	<u>2,995,690</u>	<u>(1,877,525)</u>	<u>1,118,165</u>
Total liabilities and net assets	<u>\$ 3,862,503</u>	<u>\$ 7,592,106</u>	<u>\$ 11,454,609</u>

See accompanying notes to financial statements

City of Titusville
Statement of Activities
For the Year ended December 31, 2005

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities
Governmental activities						
General government	\$ 297,065	\$ 41,726	\$ -	\$ -	\$ (255,339)	\$ (255,339)
Public safety	1,505,266	53,164			(1,452,102)	(1,452,102)
Public works	755,866		125,787	25,524	(604,555)	(604,555)
Human Services	2,020				(2,020)	(2,020)
Culture and recreation	171,311				(171,311)	(171,311)
Depreciation	296,435				(296,435)	(296,435)
Miscellaneous	117,052				(117,052)	(117,052)
Total governmental activities:	3,145,015	94,890	125,787	25,524	(2,898,814)	(2,898,814)
Business-type activities						
Internal service activities	1,285,080	922,533	210,728			(151,819)
Water, sewer and refuse facilities	2,409,174	2,892,320		96,334		579,480
Total business-type activities	3,694,254	3,814,853	210,728	96,334	427,661	427,661
Total primary government	\$6,839,269	\$ 3,909,743	\$ 336,515	\$ 121,858	(2,898,814)	(2,471,153)
General revenues and transfers						
Taxes					2,144,148	2,144,148
Licenses and permits					69,576	69,576
Fines and forfeits					82,529	82,529
Interest earnings					30,987	14,094
Miscellaneous revenues					83,407	27,527
Transfers					121,838	(121,838)
Total general revenues and transfers					2,532,485	2,452,268
Change in net assets					(366,329)	(18,885)
Net assets						
Beginning of year, January 1, 2005 as restated					3,362,019	1,137,050
End of year, December 31, 2005					\$ 2,995,690	\$ 1,118,165

See accompanying notes to financial statements

SECTION 4

City of Titusville
Statement of Assets, Liabilities and Fund Balance,
and Reconciliation to the Statement of Net Assets
Governmental Funds
December 31, 2005

	General (Major Fund)	Special Revenue (Non-Major Fund)	Capital Projects (Major Fund)	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 277,422	\$ 140,973	\$ 387,166	\$ 805,561
Due from other funds	4,656	124,000	74,799	203,455
Total assets	<u>\$ 282,078</u>	<u>\$ 264,973</u>	<u>\$ 461,965</u>	<u>\$ 1,009,016</u>
Liabilities and fund balance				
Vouchers payable and other current liabilities	\$ 9,469	\$ -	\$ -	\$ 9,469
Due to other funds	17		124,000	124,017
Total liabilities	<u>9,486</u>	<u>-</u>	<u>124,000</u>	<u>133,486</u>
Fund balances				
Undesignated	<u>272,592</u>	<u>264,973</u>	<u>337,965</u>	<u>875,530</u>
Total fund balances	<u>272,592</u>	<u>264,973</u>	<u>337,965</u>	<u>875,530</u>
Total liabilities and fund equity	<u>\$ 282,078</u>	<u>\$ 264,973</u>	<u>\$ 461,965</u>	

Amounts reported for governmental activities in the statement of net assets are different because

Receivables are not recorded in the fund financial statements
Receivables at year end consist of

Taxes receivable	200,984
Other receivables	6,989

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of assets is \$7,298,878 and the accumulated depreciation is \$4,653,364

2,645,514

Liabilities are not recorded in the fund financial statements

Notes payable	(124,000)
Voucher payable and other current liabilities	(130,432)
Compensated absences	<u>(478,895)</u>

Total net assets - governmental activities

\$ 2,995,690

City of Titusville
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

	General (Major Fund)	Special Revenue (Non-Major Fund)	Capital Projects (Major Fund)	Total Governmental Funds
Revenues				
Taxes	\$ 2,156,357	\$ -	\$ -	\$ 2,156,357
Interest income	19,678	3,579	7,730	30,987
Intergovernmental	61,531	125,787		187,318
Charges for services	68,454			68,454
Payment in lieu of taxes	24,181			24,181
Licenses and permits	69,576			69,576
Fines and forfeits	82,529			82,529
Miscellaneous revenues	54,603		22,172	76,775
Total revenues	<u>2,536,909</u>	<u>129,366</u>	<u>29,902</u>	<u>2,696,177</u>
Expenditures				
General government	299,661			299,661
Public safety	1,481,095		105,320	1,586,415
Public works	491,958	69,155	86,959	648,072
Human Services	2,020			2,020
Culture and recreation	172,457		2,446	174,903
Miscellaneous	110,872		6,180	117,052
Total expenditures	<u>2,558,063</u>	<u>69,155</u>	<u>200,905</u>	<u>2,828,123</u>
Excess (deficiency) of revenues over expenditures	<u>(21,154)</u>	<u>60,211</u>	<u>(171,003)</u>	<u>(131,946)</u>
Other financing sources (uses)				
Operating transfers in	63,013		137,350	200,363
Operating transfers (out)	(76,175)		(2,350)	(78,525)
Proceeds from long term debt		124,000	-	124,000
Total other financing sources (uses)	<u>(13,162)</u>	<u>124,000</u>	<u>135,000</u>	<u>245,838</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>(34,316)</u>	<u>184,211</u>	<u>(36,003)</u>	<u>113,892</u>
Fund balance, January 1, 2005, as restated	<u>306,908</u>	<u>80,762</u>	<u>373,968</u>	<u>761,638</u>
Fund balance, December 31, 2005	<u>\$ 272,592</u>	<u>\$ 264,973</u>	<u>\$ 337,965</u>	<u>\$ 875,530</u>

City of Titusville
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balance of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2005

Amounts reported for governmental activities in the statement
of net assets are different because

Total net changes in fund balances-governmental funds	\$ 113,892
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeds capital outlay in the period.	
Depreciation expense	\$296,435
Capital outlays	\$ 95,227
	(201,208)
Proceeds from notes payable	(124,000)
Other	
Decrease in accounts receivable	(46,380)
Increase in compensated absences	(12,938)
Increase in accounts payable	(95,695)
Changes in net assets of governmental activities	<u>\$ (366,329)</u>

City of Titusville
Combining Statement of Net Assets
Proprietary Fund Types
December 31, 2005

	Enterprise Funds				Internal Service Fund
	Water	Sewer	Refuse	Total	Fringe Benefit
Assets					
Cash and cash equivalents	\$ 96,348	\$ 226,603	\$ 31,611	\$ 354,562	\$ 46,080
Accounts receivable					
City services	37,589	40,013	8,208	85,810	
Other	60	60		120	97
Due from other funds	4			4	13
Total current assets	134,001	266,676	39,819	440,496	46,190
Capital assets					
Land	6,003	26,242		32,245	
Buildings and building improvements	667,230	6,214,849		6,882,079	
Equipment and systems	582,471	2,781,428		3,363,899	
Construction in progress		3,977,872		3,977,872	
	1,255,704	13,000,391		14,256,095	
Accumulated depreciation	(998,474)	(6,152,201)		(7,150,675)	
Total capital assets, net	257,230	6,848,190	-	7,105,420	-
Total assets	\$ 391,231	\$ 7,114,866	\$ 39,819	\$ 7,545,916	\$ 46,190
Liabilities					
Vouchers payable and other current liabilities	\$ 9,426	\$ 213,123	\$ 36	\$ 222,585	\$ 41,881
Due to other funds		74,799		74,799	4,656
Accrued compensated absences	6,721	6,356		13,077	
Notes payable	89,685	259,805		349,490	
General obligation bonds payable		480,000		480,000	
Total current liabilities	105,832	1,034,083	36	1,139,951	46,537
Noncurrent liabilities					
Due in more than one year					
Accrued compensated absences	32,052	12,741		44,793	
Notes payable	339,388	5,817,121		6,156,509	
General obligation bonds payable		1,597,365		1,597,365	
Accrued long-term bond interest		484,476		484,476	
Total non-current liabilities	371,440	7,911,703	-	8,283,143	-
Total liabilities	477,272	8,945,786	36	9,423,094	46,537
Net assets					
Invested in capital assets, net of related debt	(171,843)	(1,306,101)		(1,477,944)	
Unrestricted	85,802	(524,819)	39,783	(399,234)	(347)
Total net assets	(86,041)	(1,830,920)	39,783	(1,877,178)	(347)
Total liabilities and net assets	\$ 391,231	\$ 7,114,866	\$ 39,819	\$ 7,545,916	\$ 46,190

See accompanying notes to financial statements

City of Titusville
Combining Statement of Revenues, Expenses and
Changes in Fund Net Assets
Proprietary Fund Types
For the Year Ended December 31, 2005

	Enterprise Funds				Internal Service Fund
	Water	Sewer	Refuse	Total	Fringe Benefit
Operating revenues					
Charges for services	\$ 768,509	\$ 1,769,393	\$ 354,418	\$ 2,892,320	\$ 922,533
Operating contributions	1,391	87,300	7,643	96,334	210,728
Total operating revenues	769,900	1,856,693	362,061	2,988,654	1,133,261
Operating expenses					
Salaries and wages	319,806	336,259		656,065	
Employee benefits	193,635	206,884		400,519	645,722
Utilities	76,076			76,076	
Materials and supplies	44,422	147,641		192,063	
Contractual services	14,427	82,175	292,757	389,359	
Equipment	5,266	77,079		82,345	
Depreciation	50,864	207,938		258,802	
Insurance	38,598	38,598		77,196	639,358
Administrative	23,408	40,459	7,187	71,054	
Total operating expenses	766,502	1,137,033	299,944	2,203,479	1,285,080
Operating income (loss)	3,398	719,660	62,117	785,175	(151,819)
Non-operating revenues (expenses)					
Interest income	4,555	6,404	1,238	12,197	1,897
Interest expense	(16,431)	(189,264)		(205,695)	
Other revenues	5,238	5,174		10,412	17,115
Total non-operating revenues (expenses)	(6,638)	(177,686)	1,238	(183,086)	19,012
Income before contributions and transfers	(3,240)	541,974	63,355	602,089	(132,807)
Capital contributions					
Transfers in	2,350			2,350	
Transfers out	(21,175)	(40,000)	(60,000)	(121,175)	(3,013)
Changes in net assets	(22,065)	501,974	3,355	483,264	(135,820)
Net assets					
Beginning of year, January 1, 2005 as restated	(63,976)	(2,332,894)	36,428	(2,360,442)	135,473
End of year, December 31, 2005	\$ (86,041)	\$ (1,830,920)	\$ 39,783	\$ (1,877,178)	\$ (347)

See accompanying notes to financial statements

City of Titusville
Combining Statement of Cash Flows
Proprietary Fund Types
For the Year Ended December 31, 2005

	Enterprise Funds				Internal Service Fund Fringe Benefit Fund
	Water Fund	Sewer Fund	Refuse Fund	Total	
Cash flows from operating activities					
Receipts from customers	\$ 754,437	\$ 1,780,737	\$ 357,539	\$ 2,892,713	\$ 923,115
Receipts from other governments		87,300		87,300	210,728
Payments to suppliers	(417,762)	(517,574)	(299,908)	(1,235,244)	(1,289,227)
Payments for personnel services	(319,398)	(339,844)		(659,242)	
Payments to other funds	(21,175)	34,799	(60,000)	(46,376)	(2,524)
Other receipts	11,184	31,518	8,881	51,583	19,012
Net cash provided by operating activities	7,286	1,076,936	6,512	1,090,734	(138,896)
Cash flows from capital and related financing activities					
Cash purchase of equipment and capital improvements	(1,175)	(1,082,021)		(1,083,196)	
Repayment on general obligation bonds payable		(465,000)		(465,000)	
Repayment on notes payable	(86,648)	(249,019)		(335,667)	
Proceeds from notes payable		751,153		751,153	
Net cash provided by (used in) financing activities	(87,823)	(1,044,887)	-	(1,132,710)	-
Net increase (decrease) in cash	(80,537)	32,049	6,512.00	(41,976)	(138,896)
Cash balance, January 1, 2005	176,885	194,554	25,099	396,538	184,976
Cash balance, December 31, 2005	\$ 96,348	\$ 226,603	\$ 31,611	\$ 354,562	\$ 46,080
Supplemental disclosures of cash flows information					
Cash paid during the year ended for					
Interest	\$ 16,431	\$ 189,264	\$ -	\$ 205,695	\$ -
Reconciliation of operating income (loss) to net cash provided by (Used in) operating activities					
Cash flows from operating activities					
Net income	\$ (22,065)	\$ 501,974	\$ 3,355	483,264	\$ (135,820)
Adjustments to reconcile change in net income to net cash provided by operating activities					
Depreciation and amortization	50,864	207,938		258,802	
Changes in assets and liabilities					
(Increase) decrease in receivables	(16,422)	31,284	3,121	17,983	582
Increase (decrease) in payables	(5,499)	273,375	36	267,912	(3,658)
Increase (decrease) in accrued compensated absences	408	(3,585)		(3,177)	
Increase (decrease) in accrued interest		65,950		65,950	
Net cash provided by (used in) operations	\$ 7,286	\$ 1,076,936	\$ 6,512	\$ 1,090,734	\$ (138,896)

See accompanying notes to financial statements

City of Titusville
Combining Statement of Fiduciary Net Assets
Fiduciary Funds - Trust and Agency
December 31, 2005

	Nonexpendable Trust Funds			
	Police Pension Trust	Fire Pension Trust	General Pension Trust	Trust Fund Totals
Assets				Agency Fund
Cash	\$ -	\$ -	\$ -	\$ -
Restricted cash	218,395	120,843	-	339,238
Restricted investments	4,533,707	2,528,159	1,661,238	8,723,104
Total assets	<u>\$ 4,752,102</u>	<u>\$ 2,649,002</u>	<u>\$ 1,661,238</u>	<u>\$ 9,062,342</u>
Liabilities				
Funds held in escrow	\$ -	\$ -	\$ -	\$ -
Fund balance reserved for employees' pension benefits	4,752,102	2,649,002	1,661,238	9,062,342
Total liabilities and fund balance	<u>\$ 4,752,102</u>	<u>\$ 2,649,002</u>	<u>\$ 1,661,238</u>	<u>\$ 9,062,342</u>

See accompanying notes to financial statements

City of Titusville
Combining Statement of Changes in Fiduciary Net Assets
Fiduciary Funds - Trust
For the Year Ended December 31, 2005

	Nonexpendable Trust Funds			
	Police Pension Trust	Fire Pension Trust	General Pension Trust	Totals
Additions				
Contributions				
Contributions - Employees	\$ 28,369	\$ 18,786	\$ 43,568	\$ 90,723
Contributions - State and City aid	208,921	183,121	59,811	451,853
Contributions - Military		536		536
Total contributions	<u>237,290</u>	<u>202,443</u>	<u>103,379</u>	<u>543,112</u>
Investment income				
Realized and unrealized gains (losses) on assets	311,883	128,050	74,760	514,693
Interest and dividends	80,017	78,909		158,926
Total investment income	<u>391,900</u>	<u>206,959</u>	<u>74,760</u>	<u>673,619</u>
Total additions	<u>629,190</u>	<u>409,402</u>	<u>178,139</u>	<u>1,216,731</u>
Deductions				
Benefits	367,406	275,488	41,202	684,096
Contribution return	2,236			2,236
Administrative expenses	3,784	7,429		11,213
Total deductions	<u>373,426</u>	<u>282,917</u>	<u>41,202</u>	<u>697,545</u>
Net increase (decrease)	<u>255,764</u>	<u>126,485</u>	<u>136,937</u>	<u>519,186</u>
Net assets held in trust for pension benefits				
Beginning of year, January 1, 2005	<u>4,496,338</u>	<u>2,522,517</u>	<u>1,524,301</u>	<u>8,543,156</u>
End of year, December 31, 2005	<u>\$ 4,752,102</u>	<u>\$ 2,649,002</u>	<u>\$ 1,661,238</u>	<u>\$ 9,062,342</u>

See accompanying notes to financial statements

SECTION 5

City of Titusville, Pennsylvania
Notes to Financial Statements
December 31, 2005

Note 1 – Entity

The City of Titusville, Pennsylvania ("City") was incorporated on February 2, 1866 in the Commonwealth of Pennsylvania. The City operates under a Council – Manager form of government and provides the following services as authorized by its charter: public safety (in the form of fire and police protection), streets, sanitation services, health and social services, culture and recreation, public improvements, planning and zoning, and general administrative services. The City also provides additional services including water, sewage treatment and refuse collections.

Note 2 – Reporting Entity

The City, for financial purposes, includes all of the funds and accounts groups relevant to the operations of the City of Titusville. The financial statements presented herein do not include agencies that have been formed under applicable state laws as separate and distinct units of government apart from the City of Titusville, with the exception of the Leisure Services Board.

Component Unit – The City of Titusville has created a Leisure Services Board to operate within the City. Titusville Leisure Services Board is organized for the establishment and maintenance of recreational activities and services in the Titusville area. The organization is a joint agreement between the City of Titusville and the Titusville Area School District. The board is made up of representatives from the City and the School District and members appointed-at-large. The City appoints the governing body of this component unit. The Leisure Services Board was created to manage and maintain the parks within the City, including the City swimming pool. The accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate fund information do not contain the financial data of the component unit. A separate audit report of the Titusville Leisure Services Board can be obtained from the board's administration office.

Note 3 – Summary of Significant Accounting Policies

Government-wide Financial Statements

Government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the City as a whole, excluding fiduciary funds such as employee pension plans. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or part with fees charged to external customers.

The statement of activities reports expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include charges for services which report fees, fines, forfeitures, and other charges to users of the City services, operating grants and contributions which finance annual operations activities including restricted investment income, and capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources are not properly included with program revenues are reported as general revenues.

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2005

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental funds are reported in separate columns with a composite column for non-major funds.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The City government-wide financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standard Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The government-wide financial statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Reimbursements are reported as reductions to expenses. Fiduciary fund financial statements also report using the same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Pension trust funds recognize employer and participant contributions in the period for which contributions are due and the City has made a formal commitment to provide the contribution. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The fund financial statements have been prepared on the prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the Commonwealth of Pennsylvania. Generally under this basis of accounting, revenues are recognized when cash is received and expenditures or expenses are recognized when cash is paid.

Operating income reported in the proprietary funds financial statements includes revenues and expenses related to the operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Fund Types and Major Funds

Governmental Fund Types

These are the funds which most governmental functions are furnished. The funds included in this category are:

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2005

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted (by the Council or otherwise) to expenditures for specified purposes.

Capital Projects Fund – Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds, special assessment funds, and trust funds).

Proprietary Funds - These funds are used to account for operations; (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Water, Sewer, Refuse and Fringe Benefit Funds are proprietary funds.

Fiduciary Fund Types - Pension trust funds are used to account for resources held in trust and the receipt, investment, and distribution of retirement contributions. The City's trust funds include the non-uniform employees of the City and the police and fire departments.

The agency funds account for fiduciary assets held by the City in custodial capacity an agent on behalf of others.

Budgets and Budgetary Accounting

The City annually adopts budgets for the General fund, Special Revenue Funds, Water Fund, Sewer Fund, and Fringe Benefits Fund, since the amounts of tax levies and rates of user charges assessed to the area citizens are involved. Once approved by Council, changes may be made to the legally adopted budget when unexpected modifications are required.

The adopted budgets are integrated into the accounting system and the budgetary data, as presented in the financial statements for all funds with annual budgets, compares the budgeted and actual revenues and expenditures or expenses. Unexpended appropriations lapse at the end of the year.

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class. Budget revisions are subject to final review by City Council. Within the appropriated budget amounts, management may transfer appropriations without Council approval.

Cash

For the purpose of the statement of cash flows of its proprietary fund types, cash includes time deposits and certificates of deposit with original maturities of three months or less.

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2005

Capital Assets

General Fund capital assets are those assets not specifically related to activities reported in the business-type activities in the statement of net assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds' financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets, except for construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Building and improvements	25-40 years	25-40 years
Equipment and systems	5-20 years	5-10 years
Vehicles	5 years	5-10 years

Compensated Absences

City employees are permitted to accumulate unused vacation, sick and personal time. Contract provisions require payment for this benefit upon retirement, death or disability based on a negotiated formula. At December 31, 2005 the accumulated benefit payable was \$478,895 in the General Fund, \$38,773 for the Water Fund and \$19,097 for the Sewer Fund.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 4 – Cash and Investments

Pennsylvania statutes provide for investment of Governmental Funds into certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of Governmental Funds for investment purposes.

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2005

The City of Titusville's cash and investments consist of deposits with financial institutions and certificates of deposit. The City maintains a cash and investment pool that is available for use by all funds except for the Pension Trust Funds to maximize its earnings potential. Investments in the pool primarily consist of repurchase agreements and bank certificates of deposit, which are recorded at cost.

The City also utilizes a "zero-balance account" mechanism that provides for daily sweeps of deposits made to the City's checking accounts to be transferred immediately into an investment account. Thus, the majority of funds in the City's general accounts are invested at all times.

The City reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Managed funds related to the retirement systems not listed on an established market are reported at estimated fair value as determined by the respective fund managers based on quoted sales prices of the underlying securities. Cash deposits are reported at carrying amount which reasonably estimates fair value. The composition of pension trust investments, additional cash and investment information, and fair values are presented in Note 9.

Cash

At December 31, 2005, the deposits (cash) of the City of Titusville consists of:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Trust Fund</u>	<u>Agency Fund</u>	<u>Total</u>
Bank balance	\$349,377	\$140,973	\$387,166	\$386,090	\$50,082	\$385,677	\$341,498	\$2,040,863
FDIC insured	<u>(200,000)</u>	<u>(100,000)</u>	<u>(200,000)</u>	<u>(300,000)</u>	<u> </u>	<u>(300,000)</u>	<u>(200,000)</u>	<u>(1,300,000)</u>
Collateralized by securities held by the pledging financial institutions trust department	<u>\$149,377</u>	<u>\$ 40,973</u>	<u>\$187,166</u>	<u>\$ 86,090</u>	<u>\$50,082</u>	<u>\$ 85,677</u>	<u>\$141,498</u>	<u>\$ 740,863</u>
Carrying amount	<u>\$277,422</u>	<u>\$140,973</u>	<u>\$387,166</u>	<u>\$354,562</u>	<u>\$46,080</u>	<u>\$339,238</u>	<u>\$341,498</u>	<u>\$1,886,939</u>

At December 31, 2005 the City of Titusville's deposits exceeded the \$100,000 Federal Depository Insurance Corporation limit by \$740,863; however, no losses occurred due to this situation.

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2005

Investments

The investments of the City of Titusville at December 31, 2005 consists of:

Fiduciary Fund Type – Pension Trust

	<u>Carrying Amount</u>	<u>Cost</u>
Police Pension	\$4,533,707	\$3,981,672
Fireman's Pension	2,528,159	2,128,528
General Pension	<u>1,661,238</u>	<u>1,661,238</u>
	<u>\$8,723,104</u>	<u>\$7,771,438</u>

The City of Titusville's investments are in the following:

	<u>Carrying Amount</u>	<u>Cost</u>
Police Pension		
Asset Backed Securities	\$1,691,999	\$1,692,630
Stocks	501,032	527,047
Mutual Funds	<u>2,340,676</u>	<u>1,761,995</u>
	<u>\$4,533,707</u>	<u>\$3,981,672</u>
Fireman's Pension		
Asset Backed Securities	\$ 398,132	\$ 397,628
Stocks	247,588	254,809
Mutual Funds	<u>1,882,439</u>	<u>1,476,091</u>
	<u>\$2,528,139</u>	<u>\$2,128,528</u>
General Pension Trust		
Fixed Funds	\$1,086,921	\$1,086,921
Index Funds	<u>574,317</u>	<u>574,317</u>
	<u>\$1,661,238</u>	<u>\$1,661,238</u>

Note 5 – Property Tax Revenues and Receivables

Property Taxes

Property taxes are levied on assessed (appraised) values of listed properties as of the prior January for all real estate and business properties located in the City. Taxable assessed value represents the appraisal value less applicable exemptions authorized by City Council. Assessed values are 95% of base values. Millage rates during 2005 were 59.16 mills and 19.00 mills for land and buildings, respectively.

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2005

City real estate taxes are levied in March and are due December 31. A 2% discount is permitted if taxes are paid prior to April 30. A penalty is imposed after June 30. All unpaid taxes become delinquent December 31 of the current year. The City bills and collects its own real estate taxes, except for delinquent taxes, which are collected by Crawford County, Pennsylvania and remitted to the city. The City also assesses a per capita tax on the City's residents. The tax is payable at a discount from June 30 through August 31 of each year, with face collections from September 1 through October 31. Penalty collections are accepted from the first of November through the end of the following December.

Taxes Receivable

Taxes receivable consisted of the following at December 31, 2005:

Real estate taxes – current year	\$ 14,995
Delinquent real estate taxes – not yet collected by Crawford County tax claim bureau	162,092
Earned income tax	6,150
Per capita tax	9,368
License and permits	<u>10,000</u>
	202,605
Allowance for doubtful accounts	<u>(1,621)</u>
	<u><u>\$200,984</u></u>

Note 6 – Accounts Receivable – Other

Accounts receivable – other consisted of the following at December 31, 2005:

Governmental Funds	
General Funds	\$3,636
Capital Projects	<u>3,353</u>
	6,989
Proprietary Funds	
Water Fund	60
Sewer Fund	60
Internal Revenue Service	<u>97</u>
	<u>217</u>
	<u><u>\$7,206</u></u>

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2005

Note 7 – Accounts Receivable – City Services

Accounts receivable – city services are considered to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Accounts receivable – city services at December 31, 2005 consisted of:

Water charges	\$37,589
Sewer charges	40,013
Refuse charges	<u>8,208</u>
	<u>\$85,810</u>

Note 8 – Property, Plant and Equipment

Proprietary Fund Types

Equipment used by the proprietary funds in its operations is recorded in such funds at the historical cost of the assets.

The following is a summary of the proprietary fund types' capital assets at December 31, 2005:

	Balance at Beginning 12/31/04 (as restated)	Additions	Disposals	Balance at 12/31/05
<u>Water Fund</u>				
Land	\$ 6,003	\$ -	\$ -	\$ 6,003
Buildings and building improvements	667,230			667,230
Equipment and systems	<u>581,296</u>	<u>1,175</u>	<u> </u>	<u>582,471</u>
	<u>\$ 1,254,529</u>	<u>\$ 1,175</u>	<u>\$ -</u>	<u>\$1,255,704</u>
 Accumulated depreciation	 <u>\$ 947,610</u>	 <u>\$50,864</u>	 <u>\$ -</u>	 <u>\$ 998,474</u>
Depreciation expense for the year ended December 31, 2005	<u>\$ 50,864</u>			

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2005

	Balance at 12/31/04 (as restated)	Additions	Disposals	Balance at 12/31/05
<u>Sewer Fund</u>				
Land	\$ 26,242	\$ -	\$ -	\$ 26,242
Buildings and building improvements	6,214,849			6,214,849
Equipment and systems	2,781,428			2,781,428
Construction in progress	<u>2,895,851</u>	<u>1,082,021</u>	<u>-</u>	<u>3,977,872</u>
	<u>\$11,918,370</u>	<u>\$1,082,021</u>	<u>\$ -</u>	<u>\$13,000,391</u>
Accumulated depreciation	<u>\$ 5,944,263</u>	<u>\$ 207,938</u>	<u>\$ -</u>	<u>\$ 6,152,201</u>
Depreciation expense for the year Ended December 31, 2005	<u>\$ 207,938</u>			

Governmental Fund Type

Capital assets owned solely by the City are recorded at the historical cost of the asset.

The following is a summary of the changes in capital assets during the year ended December 31, 2005:

	Balance at 12/31/04 (as restated)	Additions	Disposals	Balance at 12/31/05
Land	\$ 170,813	\$ -	\$ -	\$ 170,813
Buildings and building improvements	4,483,666	24,140		4,507,806
Equipment and systems	<u>2,549,172</u>	<u>71,087</u>	<u>-</u>	<u>2,620,259</u>
	<u>\$7,203,651</u>	<u>\$ 95,227</u>	<u>\$ -</u>	<u>\$7,298,878</u>
Accumulated depreciation	<u>\$4,356,929</u>	<u>\$296,435</u>	<u>\$ -</u>	<u>\$4,653,364</u>
Depreciation expense for the year ended December 31, 2005	<u>\$ 296,435</u>			

Note 9 – Pension Plans

The City of Titusville maintains three separate pension plans – Police, Firemen and General Employees. The Police Pension Plan and Firemen's Pension Plan, which are defined benefit programs, are administered by separate boards and funded through separate trust funds held by Royal

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2005

Alliance and PNC. Citistreet, a member of the State Street and Citigroup financial services companies, administers the General Employees Pension Plan, which is a defined contribution plan.

The pension plans' of the City of Titusville financial statements are prepared on the basis of cash receipts and disbursements. This practice differs from the accrual or modified accrual basis of accounting prescribed by Governmental Accounting Standards Board (GASB) No. 27, *Accounting for Pensions by State and Local Governmental Employers*.

All investments held by the pension trust funds are insured and held in the name of the City or its agents.

General Employees Pension Plan (Defined Contribution Plan)

The City of Titusville has a single-employer defined contribution plan to provide retirement benefits to the non-uniformed employees of the City under the provisions of a group annuity contract. For 2005 plan participants are required to contribute \$0.50 per hour for each hour worked to the plan. The City is required to contribute \$1.00 per hour for each hour worked to the plan. Provisions and contribution rates for this plan are established and may be amended by the City Council.

Plan investments for this plan are managed by Citistreet, a member of the State Street and Citigroup financial services companies, and are reported at contract value, which approximates fair value.

Firemen's and Police Pension Plans (Defined Benefit Plans)

The City of Titusville's firemen and police participate in single-employer defined benefit pension plans. Each plan includes provisions for retirement, disability and death benefits for its members and their beneficiaries.

Membership information for each plan consisted of the following at January 1, 2005, which is the most recent actuarial evaluation. These biannual Actuarial Valuation Reports prepared by Conrad Siegel Actuaries reflect the following plan membership:

	<u>Police</u>	<u>Firemen</u>
Retirees, Beneficiaries & Disabled Receiving Benefits	19	19
Terminated Members with Vested Benefits		1
Active Plan Members	15	10

Contributions to the Firemen's Pensions by the employees are based on 5.85% of annual pay plus \$1 per month. Contributions to the Police Pension Fund by the employees are based upon 5% of annual pay plus \$1 per month if hired before January 1, 2005. Contributions to the Police Pension Fund if hired after January 1, 2005 are based upon 7% of annual pay plus \$1 per month. All fire department and full time police employees participate as of their date of hire.

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2005

The City's Firemen's Pension and Police Pension Plans prepare separate annual financial statements. The financial statements for the period ending December 31, 2005 are available for review by request to the City's Manager.

During 1998, the City adopted the provisions of Governmental Accounting Standards Board GASB No. 31, *Accounting and Financial Reporting for Certain Investments and for Investment Pools*. This statement requires that certain information regarding the pension plans of the City of Titusville's investments in investment pools, such as mutual funds and securities, be reflected at fair value, rather than cost basis.

An element of investment income, net increase/(decrease) in the fair value of investments, is required on the statement of changes in net assets – statutory-basis. This unrealized change was \$11,341 and \$53,199 for the Police Pension and Firemen's Pension, respectively, at December 31, 2005. These amounts, as well as realized gains/losses from sales of investments and interest and dividends, are reflected as changes in the investment earnings on the statement of changes in fiduciary net assets.

For 2005, the realized gains (losses) from the sale of investments for the Police Pension and the Firemen's Pension were \$300,542 and \$74,851, respectively. Interest and dividend earnings during the period amounted to \$80,017 and \$78,909, respectively, for the Police Pension and the Firemen's Pension.

The fair market value of concentrations of investments greater than five percent of the plan's value for the Police Pension and Firemen's Pension plans are reflected below:

	<u>Police Pension</u>		<u>Firemen's Pension</u>	
	<u>Fair Value</u>	<u>Percent of Assets</u>	<u>Fair Value</u>	<u>Percent of Assets</u>
MANAGED MUTUAL FUNDS				
Growth Fund of America	\$ 399,283	8.9	\$290,489	11.1
Investment Company of America	\$ 447,624	9.9	\$298,147	11.4
Washington Mutual Investors Fund	N/A	N/A	\$335,424	12.9
New World Fund	\$ 379,641	8.4	\$184,951	7.1
Small Cap World Fund	\$ 375,893	8.3	\$254,510	9.8
Capital World Growth and Income	N/A	N/A	\$165,255	6.3
New Perspective Fund	\$ 304,099	6.7	N/A	N/A
U.S. Treasury Bills	\$1,592,528	35.5	\$398,132	15.3
Europacific	N/A	N/A	\$139,253	5.3

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2005

The fair market value of concentrations of investments greater than five percent of the plan's value for the City's Non-Uniformed Pension plan are reflected below:

	<u>Fair Value</u>	<u>Percent of Assets</u>
MANAGED MUTUAL FUNDS		
Traveler's Broad Market Index Fund	\$ 574,317	34.58%
INSURANCE CONTRACTS		
Traveler's SV Fixed Fund	\$1,086,921	65.42%

Note 10 – General Obligation Bonds Payable

On June 30, 1986, the City issued General Obligation Bond, Series of 1986, in the amount of \$4,750,000. The proceeds of the sale of these bonds were used by the City to provide monies for construction of improvements to the City's sanitary sewer, including, particularly an expansion of the sewage treatment plant, to pay a portion of the costs of a capital improvement program, and payment of the costs and expenses incidental to the issuance of the Bonds. On November 21, 1989, a portion of these bonds were subsequently refinanced by the City with General Obligation Bonds, Series A of 1989 in the amount of \$3,620,000.

On May 8, 1995, the remaining portion of the Series A Bonds of 1989 and a portion of the Series B of 1989 bonds were subsequently refinanced by the City with General Obligation Bonds, Series A of 1995 in the amount of \$4,660,000.

On February 21, 2001, the City's General Obligation Bonds, Series of 1995 were subsequently refinanced by the City with General Obligation Bonds, Series of 2001 in the amount of \$3,948,110. The Bonds include capital appreciation bonds of 7.05% maturing July 1, 2007 and capital appreciation bonds of 7.10% maturing July 1, 2008 with interest payable upon maturity. The bonds are issued in accordance with the Local Government Unit Debt Act of the General Assembly of the Commonwealth of Pennsylvania, approved December 19, 1996, Act No. 177, codified at 53 Pa.C.S. Chapters 80 through 82, and pursuant to the approval of the Department of Community and Economic Development of the Commonwealth of Pennsylvania dated March 12, 2001, No. GOB 14102. The bonds are issued as "tax-exempt."

Series B of 1989

Scheduled maturities of this debt are as follows:

<u>Year</u>	<u>Interest Rate</u>	<u>Stated Value At Issuance</u>	<u>Interest</u>	<u>Payments</u>
2007	7.05%	\$141,902	\$338,098	\$480,000
2008	7.10%	<u>46,473</u>	<u>123,527</u>	<u>170,000</u>
		<u>\$188,375</u>	<u>\$461,625</u>	<u>\$650,000</u>

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2005

Series 2001

On February 21, 2001 the City authorized the selling of new bonds. The Bonds were issued as follows: \$3,948,990 General Obligation Bonds, dated March 15, 2001. The Bonds include current interest bonds maturing July 1, 2001 to July 1, 2009 payable semiannually on January 1 and July 1 of each year commencing July 1, 2001 and Capital Appreciation Bonds maturing on July 1, 2010 and July 1, 2011. The Bonds are issued in accordance with the Local Government Unit Debt Act of the General Assembly of the Commonwealth of Pennsylvania, approved December 19, 1996, Act No. 177, codified at 53 Pa.C.S. Chapters 80 through 82, and pursuant to the approval of the Department of Community and Economic Development of the Commonwealth of Pennsylvania date March 12, 2001, No. GOB 14102. The Bonds are issued as "tax-exempt."

The Bonds are issued for the refunding of certain prior Bonds, Series 1995. The 1995 Bonds were issued for capital improvements and current refunding of General Obligation Bonds, Series 1989. The purpose of this refunding is a reduction in total debt service over the life of the 1995 Bonds.

Scheduled maturities of this debt are as follows:

<u>Year</u>	<u>Interest Rate</u>	<u>Current Interest Bonds</u>	<u>Capital Appreciation Bonds</u>	<u>Interest</u>	<u>Payments</u>
2006	3.95%	\$ 480,000	\$ -	\$ 44,845	\$ 524,845
2007	4.00%	20,000		35,085	55,085
2008	4.10%	330,000		28,003	358,003
2009	4.15%	520,000		10,660	530,660
2010	4.50%		357,296	182,704	540,000
2011	4.60%		181,694	108,306	290,000
		<u>\$1,350,000</u>	<u>\$538,990</u>	<u>\$409,603</u>	<u>\$2,298,593</u>

Interest expense for the year ended December 31, 2005 was \$63,156.

The following is a summary of changes in General Obligation Bonds Payable for the year ended December 31, 2005.

	<u>Balance 12/31/04</u>	<u>Additions</u>	<u>Repayment of Debt</u>	<u>Balance 12/31/05</u>
Series B of 1989				
7.05% Capital Appreciation Bonds	\$ 141,902	\$ -	\$ -	\$ 141,902
7.10% Capital Appreciation Bonds	46,473			46,473
Series of 2001				
Current Interest Bonds	1,815,000		465,000	1,350,000
4.50% Capital Appreciation Bonds	357,296			357,296
4.60% Capital Appreciation Bonds	181,694			181,694
	<u>\$2,542,365</u>	<u>\$ -</u>	<u>\$465,000</u>	<u>\$2,077,365</u>

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2005

The following is a summary of changes in accrued bond interest for the year ended December 31, 2005:

	<u>Balance</u> <u>12/31/04</u>	<u>Additions</u>	<u>Repayment</u>	<u>Balance</u> <u>12/31/05</u>
Series B of 1989				
7.05% Capital Appreciation Bonds	\$245,624	\$27,802	\$ -	\$273,426
7.10% Capital Appreciation Bonds	81,334	9,235		90,569
Series of 2001				
4.50% Capital Appreciation Bonds	60,218	19,000		79,218
4.60% Capital Appreciation Bonds	<u>31,350</u>	<u>9,913</u>	<u> </u>	<u>41,263</u>
	<u>\$418,526</u>	<u>\$65,950</u>	<u>\$ -</u>	<u>\$484,476</u>

Note 11 – Notes Payable

1992 Titusville Municipal Water Authority Note

As of October 29, 1992, an agreement between the Titusville Municipal Water Authority and the Pennsylvania Infrastructure Investment Authority (Pennvest) calls for repayment of a total balance of \$1,736,792 with such payments commencing December 1, 1992 and continuing until October 2010. The City makes lease payments to the Authority for this note. At December 31, 2005, the outstanding balance on this amount was \$429,073. A pledge of all gross revenue and gross receipts of the Water Authority and the irrevocable and unconditional guarantee of the City of Titusville secure the note.

Scheduled maturities of this debt are as follows:

<u>Year ending</u> <u>December 31,</u>	<u>Interest</u> <u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payments</u>
2006	3.45%	\$ 89,685	\$ 13,394	\$ 103,079
2007	3.45%	92,829	10,250	103,079
2008	3.45%	96,083	6,996	103,079
2009	3.45%	99,450	3,629	103,079
2010	3.45%	<u>51,026</u>	<u>514</u>	<u>51,540</u>
		<u>\$429,073</u>	<u>\$34,783</u>	<u>\$463,856</u>

Interest expense for the year ended December 31, 2005 was \$16,431.

2000 Pennvest Sanitary Sewer Note

During 2000, the City entered an agreement with the Pennsylvania Infrastructure Investment Authority (Pennvest) for the sewer project. This agreement requires monthly payments of \$1,473 maturing in March 2021. As of December 31, 2005 the principal balance due to Pennvest was \$249,914.

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2005

Scheduled maturities of this debt are as follows:

<u>Year</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payments</u>
2006	1.00%	\$ 15,246	\$ 2,430	\$ 17,676
2007	1.00%	15,401	2,275	17,676
2008	1.00%	15,556	2,122	17,676
2009	1.00%	15,710	1,966	17,676
2010	1.00%	15,868	1,808	17,676
2011-2015	1.00%	81,766	6,614	88,380
2016-2020	1.00%	85,956	2,424	88,380
2021	1.00%	<u>4,411</u>	<u>6</u>	<u>4,417</u>
		<u>\$249,914</u>	<u>\$19,643</u>	<u>\$269,557</u>

Interest expense for the year ended December 31, 2005 was \$2,578.

2001 Pennvest Stormwater Sewer Note

During 2001, the City entered an agreement with the Pennsylvania Infrastructure Investment Authority (Pennvest) for the sewer project. This agreement requires monthly payments of \$10,252 maturing in July 2021. As of December 31, 2005, the principal balance due was \$1,774,612.

Scheduled maturities of this debt are as follows:

<u>Year</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payments</u>
2006	1.00%	\$ 105,768	\$ 17,261	\$ 123,029
2007	1.00%	106,830	16,199	123,029
2008	1.00%	107,903	15,126	123,029
2009	1.00%	108,987	14,042	123,029
2010	1.00%	110,082	12,947	123,029
2011-2015	1.00%	567,222	47,926	615,148
2016-2020	1.00%	596,291	18,857	615,148
2021	1.00%	<u>71,529</u>	<u>240</u>	<u>71,769</u>
		<u>\$1,774,612</u>	<u>\$142,598</u>	<u>\$1,917,210</u>

Interest expense for the year ended December 31, 2005 was \$18,314.

2003 Pennvest Stormwater Sewer Note

During 2003, the City entered into an agreement with the Pennsylvania Infrastructure Investment Authority (Pennvest) for a storm and sanitary sewer line project. As of December 31, 2005, the amount drawn down and outstanding to Pennvest was \$4,052,400.

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2005

Scheduled maturities as of this debt are as follows:

<u>Year</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payments</u>
2006	1.00%	\$ 138,791	\$ 41,493	\$ 180,284
2007	1.00%	139,537	40,586	180,123
2008	1.00%	140,939	39,184	180,123
2009	1.00%	142,355	37,768	180,123
2010	1.00%	143,785	36,338	180,123
2011-2015	1.00%	740,884	159,729	900,613
2015-2020	1.00%	778,854	121,759	900,613
2021-2025	1.00%	818,769	81,844	900,613
2026-2030	1.00%	860,731	39,882	900,613
2031-2032	1.00%	<u>356,518</u>	<u>3,726</u>	<u>360,244</u>
		4,261,163	<u>\$602,309</u>	<u>\$4,863,472</u>

Less portion of principal not
drawn down until 2006

(208,763)

\$4,052,400

Interest expense for the year ended December 31, 2005 was \$39,265.

2005 Commonwealth of Pennsylvania Infrastructure Loan

During 2005, the City entered into an agreement with the Commonwealth of Pennsylvania for an infrastructure loan for a paving project. The agreement requires annual payments of \$27,076 commencing September 2006 and maturing September 2010.

Scheduled maturities of the debt are as follows:

<u>Year</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payment</u>
2006	3%	\$ 23,356	\$ 3,720	\$ 27,076
2007	3%	24,057	3,019	27,076
2008	3%	24,778	2,298	27,076
2009	3%	25,522	1,554	27,076
2010	3%	<u>26,287</u>	<u>789</u>	<u>27,076</u>
		<u>\$124,000</u>	<u>\$11,380</u>	<u>\$135,380</u>

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2005

The following is a summary of changes in notes payable for the year ended December 31, 2005.

	<u>Balance</u> <u>12/31/04</u>	<u>Additions</u>	<u>Repayment</u> <u>of Debt</u>	<u>Balance</u> <u>12/31/05</u>
Governmental activities				
2005 Commonwealth of Pennsylvania Note	\$ -	\$124,000	\$ -	\$ 124,000
Business-type activities				
1992 Titusville Municipal Water Auth Note	515,721		86,648	429,073
2000 Pennvest Sanitary Sewer Note	265,008		15,094	249,914
2001 Pennvest Stormwater Note	1,879,327		104,715	1,774,612
2003 Pennvest Stormwater Note	<u>3,430,457</u>	<u>751,153</u>	<u>129,210</u>	<u>4,052,400</u>
	<u>6,090,513</u>	<u>751,153</u>	<u>335,667</u>	<u>6,505,999</u>
	<u>\$6,090,513</u>	<u>\$875,153</u>	<u>\$335,667</u>	<u>\$6,629,999</u>

Note 12 – Working Capital

Working capital is defined as current assets less current liabilities. Working capital for the City of Titusville's Business-Type Activities – Enterprise Funds as of December 31, 2005 is as follows:

Water Fund	\$ 28,169
Sewer Fund	(\$767,407)
Refuse Fund	\$ 39,783
Fringe Benefit Fund	(\$ 347)

Note 13 – Interfund Due to/Due from

The interfund loans, distinguished from interfund transfers by management's intent to restore the funds to the respective funds when feasible, at December 31, 2005 are summarized as follows:

<u>Due To</u>	<u>Due From</u>	<u>Amount</u>
General Fund	Internal Service Fund	\$ 4,656
Special Revenue Fund	Capital Project Fund	124,000
Capital Project Fund	Sewer Fund	74,799
Water Fund	General Fund	4
Internal Service Fund	General Fund	<u>13</u>
		<u>\$203,472</u>

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2005

Note 14 – Interfund Transfers

Interfund transfers as reported in the accompanying fund financial statements for the year ended December 31, 2005, were as follows:

<u>Fund</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
General Fund	\$ 63,013	\$ 76,175
Capital Projects Fund	137,350	2,350
Water Fund		21,175
Sewer Fund	2,350	40,000
Refuse Fund		60,000
Internal Service Funds	<u> </u>	<u>3,013</u>
	<u>\$202,713</u>	<u>\$202,713</u>

Note 15 – Fringe Benefits Fund

The City maintains a separate fund for the payment of fringe benefits for its employees. Revenue of this fund consists of payments from the General, Water, and Sewer funds. Payments to this fund amounted to \$922,533 for the year ended December 31, 2005. Payments from this fund for various benefits provided by the City amounted to \$1,288,093 for the year ended December 31, 2005. Assets of this fund are included in the combined financials statements under proprietary fund types.

Note 16 – Post Employment Benefits

The City contributes a maximum of \$3,600 annually toward health care coverage for retired police officers and their family until they reach age 65. Coverage ends if the officer obtains post-retirement employment elsewhere that includes health benefits. Therefore, the City recognizes the expense as payments are made on the retirees' behalf. Total expense for the year ended December 31, 2005 was \$25,200. The City's potential liability for post-employment benefits based upon the retiree's employment status as of December 31, 2005 was approximately \$255,600.

Note 17 – Net Asset Restatement

Net assets as of December 31, 2004 has been restated to properly record the cost of capital assets and the related accumulated depreciation for the general fund and the enterprise funds. Additionally, non resident earned income tax monies have been reclassified to the agency fund.

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2005

General Fund

General fund (fund financial statements) and Government Wide Governmental Activities net assets were restated as follows:

	<u>Total Governmental Activities Fund Balance</u>	<u>General Fund</u>
Fund balance/net assets, 12/31/04 as originally reported	\$2,964,085	\$534,084
Reclassification of non-resident funds to the agency fund	(227,176)	(227,176)
Changes to accumulated depreciation	<u>625,110</u>	<u> </u>
Fund balance/net assets, 12/31/04, as restated	<u>\$3,362,019</u>	<u>\$306,908</u>

Enterprise Fund

Enterprise fund net assets were restated as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Refuse</u>	<u>Total</u>
Net assets, 12/31/04, as originally reported	(\$26,143)	(\$2,111,368)	\$36,428	(\$2,101,083)
Cumulative Adjustments to cost of capital assets	(7,500)			(7,500)
Changes to accumulated depreciation	(29,158)	(221,526)		(250,684)
Other adjustments	<u>(1,175)</u>	<u> </u>	<u> </u>	<u>(1,175)</u>
Net assets, 12/ 31/ 04, as restated	<u>(\$63,976)</u>	<u>(\$2,332,894)</u>	<u>\$36,428</u>	<u>(\$2,360,442)</u>

Note 18 – Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City currently reports its risk management activities in the general fund. The City carries commercial insurance for all other types of loss. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2005

Note 19 – Related Organizations

Related organizations holding agency relationships with the City are excluded from the City's financial reporting since the City does not carry a significant role in these organizations' operations. Audited financial statements are available from the respective organizations. These organizations are described as follows:

Titusville Municipal Water Authority

Provides repayment of loan from Pennvest with monthly lease payments made to the Authority by the City. The City has no significant influence over the Authority. The Titusville Municipal Authority reports separately.

Redevelopment Authority of the City of Titusville

Administers federal funding for housing condition improvements and community development activities approved by the U.S. Department of Housing and Urban Development. The City has no significant influence over the budget, management, or policies of the Authority. The Redevelopment Authority of the City of Titusville reports separately.

Titusville Airport Authority

Administers federal funding for airport improvements and maintenance approved by the Federal Aviation Administration. The City has no significant influence over the budget, management, or policies of the Authority. The Titusville Airport Authority reports separately.

Note 20 – Contingent Liabilities

Grant Programs – The City participates in both state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The City is potentially liable for any expenditures, which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance, which would result in the disallowance of program expenditures.

Litigation

The City has been served with a complaint as a result of damages caused to a property owner's structure in February of 2004. The complaint alleges that the City negligently failed to properly shut off city services which caused damage to the property owner's property and the loss of rental income. The complaint has been referred to the City's insurance carrier, which is providing a defense, however, if a settlement results it will be resolved by the insurance carrier.

City of Titusville, Pennsylvania
Notes to Financial Statements, continued
December 31, 2005

Litigation was initiated by a local non-profit Organization contending that the City violated the Organization's rights under the First and Fourteenth Amendments of the United States Constitution, the Federal Religious Land Use and Institutionalized Persons Act and the Pennsylvania Religious Freedom Protection Act as a result of the City's commercial zoning act. A settlement was reached during 2006 in which the City agreed to pay \$7,500 over a two year period to the Organization beginning in 2007.

SUPPLEMENTAL INFORMATION

SECTION 6

**City of Titusville
Pension Plans
Required Supplemental Schedule
For the Year Ended December 31, 2005**

A. Schedule of Employer Contribution

	<u>Year Ended December 31,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
Police Pension	2001	\$ 89,058	100%
	2002	\$192,839	100%
	2003	\$188,606	100%
	2004	\$202,899	100%
	2005	\$208,921	100%
Fire Pension	2001	\$ 22,961	100%
	2002	\$ 90,192	100%
	2003	\$ 91,591	100%
	2004	\$176,520	100%
	2005	\$178,522	100%
Non-uniformed Pension	2001	\$ 58,032	100%
	2002	\$ 68,160	100%
	2003	\$ 60,760	100%
	2004	\$ 57,106	100%

B. Firemen's and Police Pension Schedules of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (d)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/d)</u>
<u>Police Pension</u>						
1/1/1999	\$4,004,071	\$4,091,498	\$ 87,427	97.86%	\$556,237	15.72%
1/1/2001	\$4,280,461	\$4,672,936	\$ 39,2475	91.60%	\$546,749	71.78%
1/1/2003	\$3,986,545	\$5,249,416	\$1,262,871	75.94%	\$594,211	212.53%
1/1/2005	\$4,495,885	\$5,779,582	\$1,283,697	77.80%	\$604,734	212.30%
<u>Firemen's Pension</u>						
1/1/1999	\$2,750,001	\$2,664,253	(\$ 85,748)	103.22%	\$246,321	(34.81%)
1/1/2001	\$2,776,751	\$3,348,998	\$ 572,247	82.91%	\$173,637	329.57%
1/1/2003	\$2,134,605	\$3,610,563	\$1,475,958	59.12%	\$299,886	492.17%
1/1/2005	\$2,522,518	\$3,966,117	\$1,443,599	63.60%	\$294,194	490.70%

C. Notes to Required Supplemental Schedule

The information presented in the required schedule was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

	<u>Police Pension</u>	<u>Fire Pension</u>
Valuation date	1/1/2005	1/1/2005
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level dollar closed	Level dollar closed
Remaining amortization period	13 years	19 years
Asset valuation method	Market value	Market value
Actuarial assumptions:		
Investment rate of return*	8.0%	8.0%
Projected salary increases*	4%	5%
* Includes inflation at	0%	0%
Cost of living adjustments	None	None

See independent auditors' report

City of Titusville
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund - Statutory Basis
For the Year Ended December 31, 2005

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Taxes	\$ 2,138,500	\$ 2,156,357	\$ 17,857
Interest income	6,000	19,678	13,678
Intergovernmental	98,500	61,531	(36,969)
Charges for services	55,900	68,454	12,554
Payment in lieu of taxes	25,500	24,181	(1,319)
Licenses and permits	73,350	69,576	(3,774)
Fines and forfeits	91,000	82,529	(8,471)
Miscellaneous revenues	29,980	54,603	24,623
Total revenues	2,518,730	2,536,909	18,179
Expenditures			
General government	300,114	299,661	453
Public safety	1,503,143	1,481,095	22,048
Public works	461,946	491,958	(30,012)
Human Services	2,100	2,020	80
Culture and recreation	176,756	172,457	4,299
Miscellaneous	110,805	110,872	(67)
Total expenditures	2,554,864	2,558,063	(3,199)
Excess (deficiency) of revenues over expenditures	(36,134)	(21,154)	14,980
Other financing sources (uses)			
Operating transfers in	63,013	63,013	-
Operating transfers (out)	(76,175)	(76,175)	-
Total other financing sources	(13,162)	(13,162)	-
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(49,296)	(34,316)	14,980
Fund balance at January 1, 2005, as restated	306,908	306,908	-
Fund balance at December 31, 2005	\$ 257,612	272,592	\$ 14,980
Adjustments to generally accepted accounting principles			
Taxes receivable		200,984	
Other receivables		3,636	
Capital assets		7,298,878	
Accumulated depreciation		(4,653,364)	
Accounts payable		(6,433)	
Compensated absences		(478,895)	
Fund balance (GAAP basis) at December 31, 2005		\$ 2,637,398	

Note: No budgetary transfers occurred during 2005. The original and final budget are reported under the column titled "Budget." Additionally, the budget has been prepared in accordance with the cash basis of accounting and the budget laws of the Commonwealth of Pennsylvania.

City of Titusville
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Special Revenue - Statutory Basis
For the Year Ended December 31, 2005

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Interest income	\$ 400	\$ 3,579	\$ 3,179
Intergovernmental	125,503	125,787	284
Total revenues	125,903	129,366	3,463
Expenditures			
Public works	125,903	69,155	56,748
Total expenditures	125,903	69,155	56,748
Excess (deficiency) of revenues over expenditures	-	60,211	60,211
Other financing sources (uses)			
Proceeds from long-term debt		124,000	124,000
Total other financing sources (uses)	-	124,000	124,000
Excess of revenues and other financing sources over (under) expenditures and other financing uses	-	184,211	184,211
Fund balance at January 1, 2005	80,762	80,762	-
Fund balance at December 31, 2005	\$ 80,762	\$ 264,973	\$ 184,211

Note: No budgetary transfers occurred during 2005. The original and final budget are reported under the column titled "Budget." Additionally, the budget has been prepared in accordance with the cash basis of accounting and the budget laws of the Commonwealth of Pennsylvania.

City of Titusville
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Capital Projects - Statutory Basis
For the Year Ended December 31, 2005

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Interest income	\$ 2,500	\$ 7,730	\$ 5,230
Intergovernmental			
Miscellaneous revenues	203,400	22,172	(181,228)
Total revenues	205,900	29,902	(175,998)
Expenditures			
Public safety	74,319	105,320	(31,001)
Public works	421,222	86,959	334,263
Culture and recreation		2,446	(2,446)
Miscellaneous	25,000	6,180	18,820
Total expenditures	520,541	200,905	319,636
Excess (deficiency) of revenues over expenditures	(314,641)	(171,003)	143,638
Other financing sources (uses)			
Operating transfers in	137,350	137,350	-
Operating transfers (out)		(2,350)	(2,350)
Total other financing sources	137,350	135,000	(2,350)
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(177,291)	(36,003)	141,288
Fund balance at January 1, 2005	373,968	373,968	-
Fund balance at December 31, 2005	\$ 196,677	\$ 337,965	\$ 141,288

Note: No budgetary transfers occurred during 2005. The original and final budget are reported under the column titled "Budget." Additionally, the budget has been prepared in accordance with the cash basis of accounting and the budget laws of the Commonwealth of Pennsylvania.

SECTION 7

City of Titusville
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2005

<u>Federal Grantor/Pass through Grantor/ Program Title</u>	<u>Federal CFDA No.</u>	<u>Contract Number</u>	<u>Receipts</u>	<u>Expenses</u>
United States Department of Housing and Urban Development				
Passed through The Pennsylvania Department of Community and Economic Development				
Community Development Block Grant	14.228	21-762-0080	\$ 1,187	\$ 1,187
Community Development Block Grant	14.228	22-762-0120	10,715	10,715
Community Development Block Grant	14.228	C000003203	6,088	6,088
Community Development Block Grant	14.228	C000007500	64,775	64,775
Community Development Block Grant	14.228		74,308	74,308
			<u>157,073</u>	<u>157,073</u>
Passed through The Pennsylvania Department of Transportation				
Airport Improvement Program (see below)	20.106	810971 & 810972	<u>113,880</u>	<u>113,880</u>
Passed through The Pennsylvania Infrastructure Investment Authority				
Capitalization Grants for Clean Water State Revolving Funds	66.458	XP-983689-01	<u>87,300</u>	<u>87,300</u>
Capitalization Grants for Clean Water State Revolving Funds	66.458	71262	<u>751,153</u>	<u>751,153</u>
United States Department of General Service Administration				
Passed through The Pennsylvania General Service Administration				
Donation of Federal Surplus Personal Property	39.003	N/A	<u>8,526</u>	<u>8,526</u>
Total federal financial assistance			<u>\$ 1,117,932</u>	<u>\$ 1,117,932</u>
50 % of above federal funding				<u>\$ 558,966</u>
*Major programs tested Federal CFDA# 66.458				<u>\$ 838,453</u>
Total major programs tested				<u>\$ 838,453</u>
Percent of total treated as major programs				<u>75.00%</u>

This schedule has been prepared on the cash basis and budget laws of The Commonwealth of Pennsylvania.

Community Development Block Grant moneys passed directly from the City of Titusville, Pennsylvania to the Redevelopment Authority of the City of Titusville and, therefore, have not been included in revenues in the accompanying financial statements.

The airport improvement program moneys passed directly from the City of Titusville, Pennsylvania to the Titusville Airport Authority and, therefore, have not been included in revenues in the accompanying financial statements.

See independent auditors' report

City of Titusville, Pennsylvania
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2005

A. Summary of Auditors' Results:

1. A qualified opinion was issued on the financial statements of the City of Titusville, Pennsylvania.
2. No internal control reportable conditions were disclosed during the audit.
3. No material noncompliance conditions were disclosed during the audit.
4. No reportable conditions in internal control over major programs were disclosed during the audit.
5. An unqualified opinion was issued on the major program compliance audit report.
6. There are no audit findings which are required to be reported under §510(a).
7. The major program was the Capitalization Grants for Clean Water, CFDA 66.458. The total expenditures for the Capitalization Grants for Clean Water were \$838,453. Total federal expenditures per schedule of federal awards were \$1,117,932. 75.00% of federal expenditures were tested as a major program (838,453/1,117,932).
8. The threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The auditee did not qualify as a low-risk auditee under §530.

B. There were no findings relating to the financial statements, which are required to be reported under GAGAS.

C. There were no findings and questioned costs relating to the federal awards, including audit findings as defined in §510(a).